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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/06

SPONSOR Lujan B LAST UPDATED _____ HB 465

SHORT TITLE Working Families Tax Credit SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(8,800.0)	(17,600.0)	(17,600.0)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

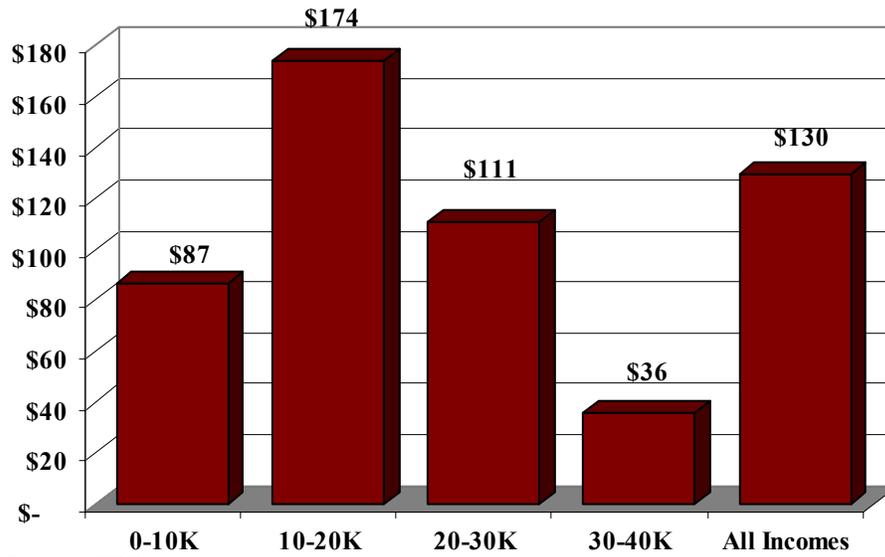
Synopsis of Bill

House Bill 465 amends the Income Tax Act to provide a Working Family Credit (WFC) for tax filers with earned income. The WFC is equal to 7.5 percent of the existing federal Earned Income Tax Credit (EITC). It is a refundable credit meaning that if it exceeds the tax liability of the tax filer, the balance is refunded to the filer. A tax filer can take advantage of this credit or the Low Income Tax Comprehensive Tax Rebate (LICTR) but not both of them. The credit is effective beginning with the 2006 tax year.

FISCAL IMPLICATIONS

Approximately 200 thousand New Mexicans file for the federal EITC each year. 270 thousand New Mexicans take advantage of the LICTR. The two programs target different populations with the EITC aimed more at families who have earnings from working while the LICTR assists more people who have little or no earnings and it phases out pretty quickly as modified gross income reaches \$22 thousand. According to TRD, an estimated 135,000 tax filers will claim the new state WFC with an average benefit of \$130 per return.

Average Benefit of WFC by Income



Source: TRD

Distribution of WFC Benefit

	Single	Married Filing Jointly	Head of Household	Average Benefit
0-10K	\$ 52	\$ 97	\$ 99	\$ 87
10-20K	144	188	173	174
20-30K	93	125	103	111
30-40K	36	38	33	36
All Incomes	87	134	135	130

Note: Married tax filers filing separate returns are ineligible for the EITC

Source: TRD

SIGNIFICANT ISSUES

Seventeen states, including the District of Columbia, currently offer a state level EITC (Colorado’s EITC is tied to their TABOR rules and so some years they do not allow the credit). The credit has proven to be a simple and efficient credit. It is also popular since it only goes to individuals and families with earned income. One of the key elements is the refundability of the credit: the taxpayer receives the full amount of the credit regardless of the tax liability. Twelve of the seventeen state EITCs are refundable, according to research at the Institute on Taxation and Economic Policy. New York and Vermont have the most generous EITCs allowing over 30 percent of the federal credit and making it refundable. Rhode Island has a 25 percent credit but it is not refundable which restricts its effectiveness.

WORKING FAMILY CREDIT SUMMARY

	Filing Jointly	Head of Household	Single
Adjusted Gross Income Thresholds for Federal EITC			
No Children	13,750	11,750	11,750
One Child	33,030	31,030	31,030
More than One Child	37,263	35,263	35,263

Maximum Credit - Federal EITC			
No Children	399	399	399
One Child	2,662	2,662	2,662
More than One Child	4,400	4,400	4,400

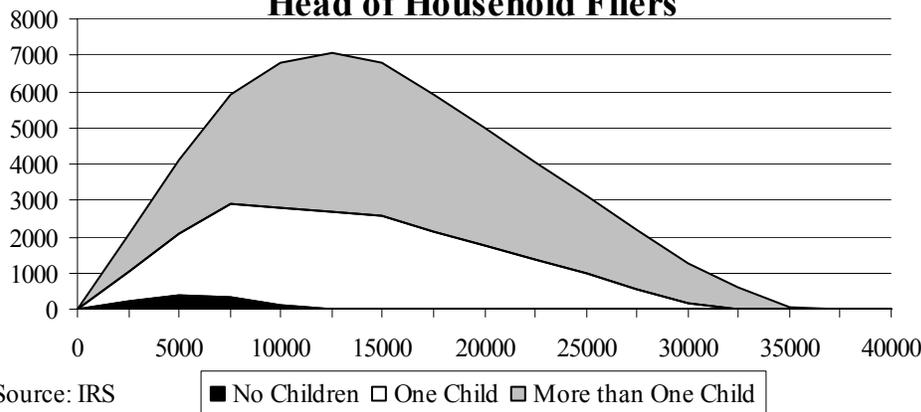
Maximum Credit - State WFC			
No Children	30	30	30
One Child	200	200	200
More than One Child	330	330	330

Note: Married tax filers filing separate returns are ineligible for the EITC

Source: IRS

The maximum federal benefit is \$399 for filers with no children, \$2,662 for filers with one qualifying child, and \$4,400 for filers with more than one child. At 7.5 percent, the maximum for the WFC would be \$30, \$200, and \$330 respectively. The federal credit is indexed to inflation which means the state WFC will be indexed as well.

Federal Benefit by Income for Single and Head of Household Filers



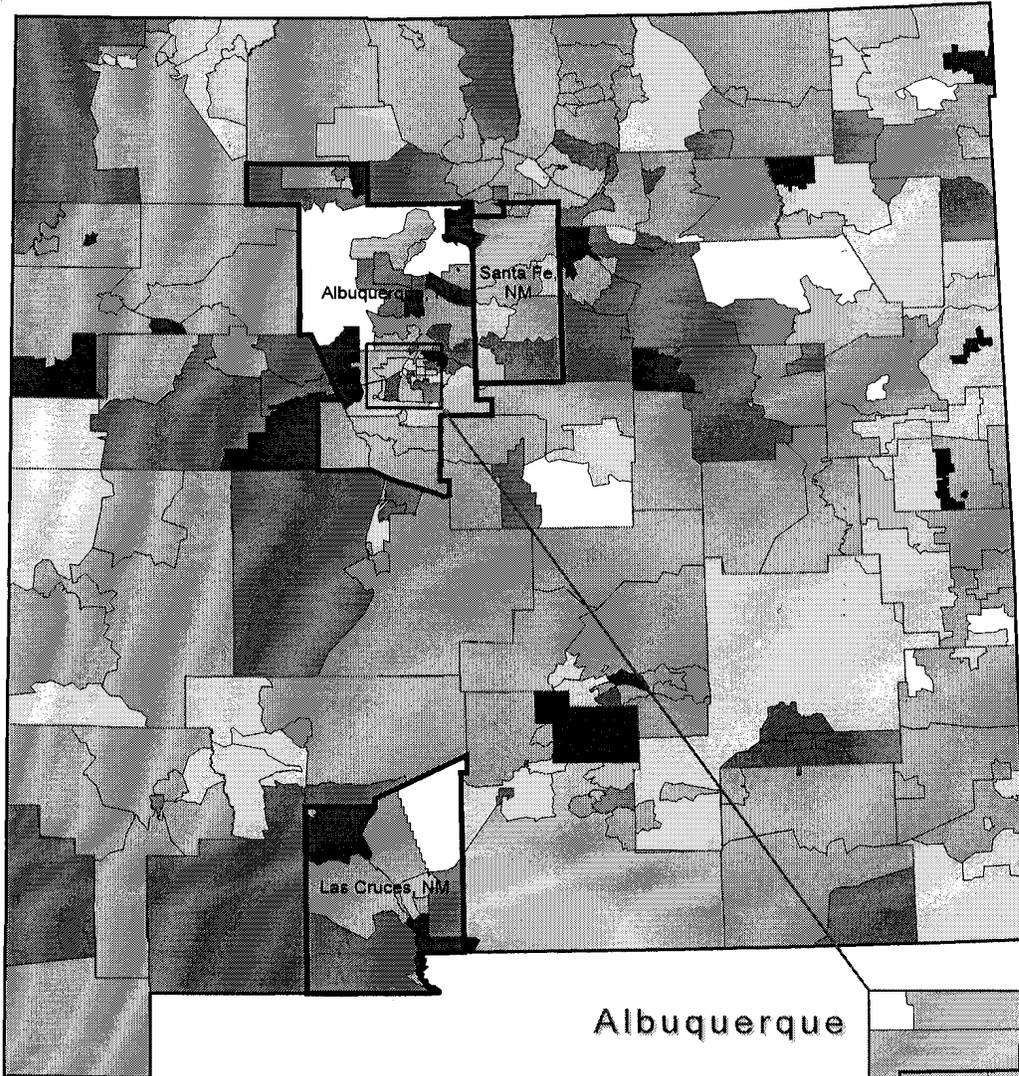
The WFC would not count as income for modified gross income in determining other benefits (food stamps, for example). A federal EITC recipient can claim either the LICTR or the WFC but not both. Generally, the EITC will be more beneficial to those filers near the income cut-offs for the LICTR and less beneficial for those will incomes close to zero.

ADMINISTRATIVE IMPLICATIONS

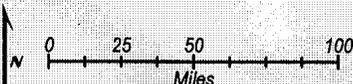
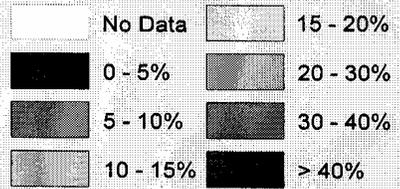
TRD reports that the WFC forms and processing would impose moderate impacts on the department if not included in an annual retrofit of the PIT forms.

New Mexico

EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001



Percentage Recipients



- Metro Boundary
- City Boundary
- County Boundary
- Zip Code Boundary

Percentage Recipients			
Large City	Large Suburb	Small Metro	Rural
16.4%	18.0%	22.4%	27.8%